

SGX (SGX SP)

Financial Services - Exchanges

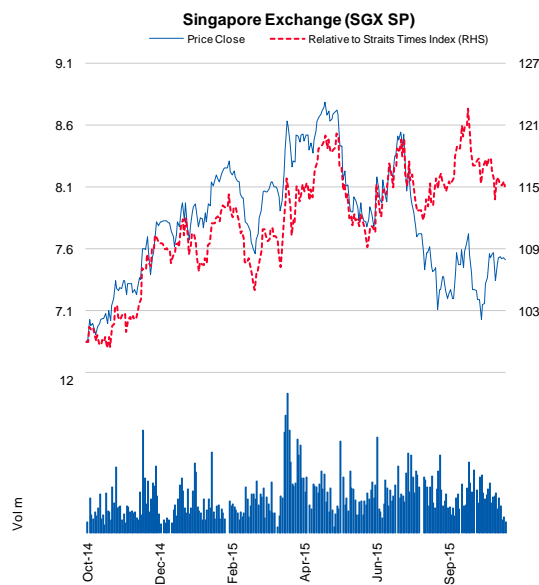
Market Cap: USD5,793m

Buy (Maintained)

 Target Price: **SGD8.13**

 Price: **SGD7.51**

Derivatives Surge YoY But Soften Sequentially

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	22.8m/16.5m
Cons. Upside (%)	7.9
Upside (%)	8.2
52-wk Price low/high (SGD)	6.91 - 8.78
Free float (%)	71
Share outstanding (m)	1,072
Shareholders (%)	
SEL Holdings	23.33

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.9)	(0.5)	(11.4)	(9.5)	9.5
Relative	6.2	(5.5)	(1.1)	4.3	15.0

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1QFY16 net profit of SGD99.3m (+28% YoY) was in line, representing 28% of our FY16 forecast. 1QFY16 SADV of SGD1.23bn rose 27% YoY, while derivatives average daily contracts traded surged 82% YoY to 862,000. Maintain BUY with an unchanged TP of SGD8.13, pegged to 23x FY17 P/E. While our TP is only 8% higher than current traded price, investors get an additional 4% dividend yield.

- ◆ **Derivatives remain a star performer.** 1QFY16 (Jun) derivatives average daily contracts amounted to 862,000, up 82% YoY. 53% of the derivatives contracts traded were China A50 Index futures contracts. While the average daily China A50 Index futures contracts volume has fallen 15% QoQ, YoY growth remained robust at 159%. As we see sequentially softer volumes for China A50 Index futures, we assume lower FY16 and FY17 derivatives average daily contracts at 754,000 and 782,000 respectively.
- ◆ **Securities market turnover is unexciting.** 1QFY16 securities market average daily value (SADV) of SGD1.23bn was 27% higher YoY, but only up a marginal 3% QoQ. We maintain our assumption of FY16 and FY17 SADV of SGD1.17bn and SGD1.27bn respectively.
- ◆ **Operating expenses up SGD20m or 25% YoY.** Excluding Energy Market Company (EMC), expenses would have risen 18% or SGD15m. Another SGD8m rise was due to higher royalties from derivatives volume growth – which could slow if derivatives trading volume softens.
- ◆ **Declares an interim DPS of 5 cents (1QFY15: 4 cents).** Singapore Exchange's (SGX) current policy is for a base quarterly DPS of 5 cents, and an annual payout ratio of not less than 80%.
- ◆ **Limited share price downside risk, but good upside potential.** Our TP is pegged to 23x FY17 P/E (lower than 5-year average of 25x). While the company traded around 14x P/E during the global financial crisis (2H08), we do not expect such severe P/E compression this time around. Another attraction is the forecast dividend yield of 4%.

Forecasts and Valuations	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover (SGDm)	715	687	779	847	885
Reported net profit (SGDm)	336	320	349	361	379
Recurring net profit (SGDm)	336	320	349	361	379
Recurring net profit growth (%)	15.1	(4.6)	8.8	3.6	4.8
Recurring EPS (SGD)	0.31	0.30	0.33	0.34	0.35
DPS (SGD)	0.28	0.28	0.28	0.30	0.32
Recurring P/E (x)	23.9	25.1	23.0	22.3	21.3
P/B (x)	9.04	8.71	8.24	7.95	7.66
P/CF (x)	19.2	22.4	18.7	18.3	21.7
Dividend Yield (%)	3.7	3.7	3.7	4.0	4.2
EV/EBITDA (x)	16.4	17.9	16.4	15.7	15.0
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash
Our vs consensus EPS (adjusted) (%)				(1.7)	(5.5)

Source: Company data, RHB

Figure 1: P&L with assumptions

FYE Jun (SGDm)	FY13	FY14	FY15	FY16F	FY17F	1QFY15	1QFY16
Turnover	715.1	686.9	778.9	847.2	885.2	168.9	219.6
EBITDA	454.6	417.3	459.5	474.1	499.1	100.4	132.4
Depreciation	(40.4)	(45.6)	(57.3)	(53.0)	(54.0)	(13.4)	(15.1)
EBIT	415.5	371.7	402.2	421.1	445.1	87.0	117.3
Pre-tax Profit	408.0	379.0	411.5	431.6	456.2	89.6	119.7
Tax	(72.1)	(58.6)	(62.9)	(70.4)	(77.6)	(12.1)	(20.4)
Net Profit	335.9	320.4	348.6	361.2	378.7	77.6	99.3
Growth (%)							
Turnover	10.4	(4.0)	13.4	8.8	4.5	(8.3)	30.1
EBITDA	12.4	(8.2)	10.1	3.2	5.3	(14.1)	31.9
Pre-tax Profit	14.8	(7.1)	8.6	4.9	5.7	(17.5)	33.5
Profitability (%)							
EBITDA Margin	63.6	60.7	59.0	56.0	56.4	59.4	60.3
Pre-tax Margin	57.1	55.2	52.8	50.9	51.5	53.1	54.5
Net Margin	47.0	46.7	44.8	42.6	42.8	45.9	45.2
Future & option turnover (units)(m)							
Future & option turnover (units)(m)	101.1	104.3	161.2	190.0	197.0	28.8	52.5
Derivatives daily avg volume ('000)	404	414	642	754	782	444	862
Stock-market turnover (incl structured warrants) (SGDbn)							
Stock-market turnover (incl structured warrants) (SGDbn)	376.0	286.3	274.3	295.0	320.0	63.0	75.0
ADT (incl structured warrants)(SGDbn)	1.50	1.14	1.09	1.17	1.27	0.97	1.23
Equities market velocity (%)	52%	39%	36%	38%	39%	32%	46%
Revenue breakdown (SGDm)							
- Securities	275.0	226.9	209.3	223.9	240.0	49.1	55.9
- Derivatives	201.9	208.7	295.7	346.3	357.7	53.7	90.9
- Market Data & Connectivity	73.3	76.6	81.2	84.0	87.0	19.3	21.6
- Depository Services	94.3	95.0	104.2	104.0	108.0	23.9	29.7
- Issuer Services	67.9	78.3	87.6	87.0	90.0	22.7	21.4
- Others	2.7	1.4	1.0	2.0	2.5	0.2	0.2
Total Operating Revenue	715.1	686.9	778.9	847.2	885.2	168.9	219.6

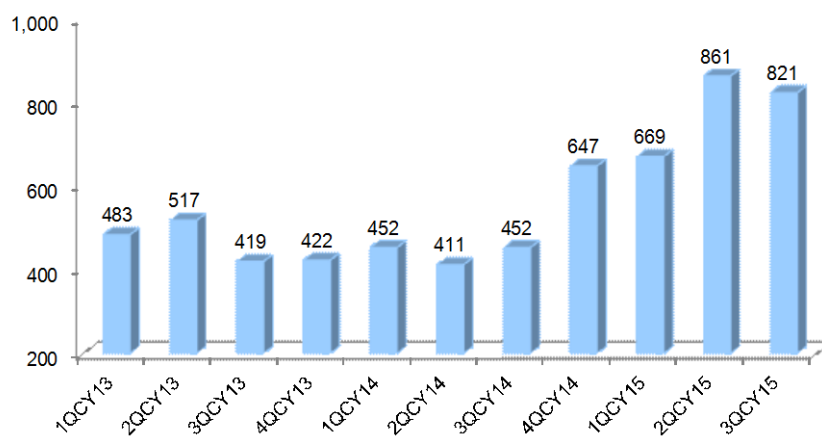
Source: Company data & RHB

Figure 2: Earnings sensitivity to stock market turnover

	FY17F					
	Base case	20	40	60	(20)	(40)
Stkmkt turnover % rise						
Securities ADT (SGDbn)	1.27	1.52	1.78	2.03	1.02	0.76
Revenue (SGDm)	885.2	937.7	990.2	1,042.7	832.7	780.1
Net profit (SGDm)	378.7	420.9	463.2	505.4	336.4	294.2
EPS (SGD)	35.3	39.3	43.2	47.2	31.4	27.5
Target PE rating	23	23	23	23	23	23
Target Price (SGD)	8.13	9.03	9.94	10.85	7.22	6.31

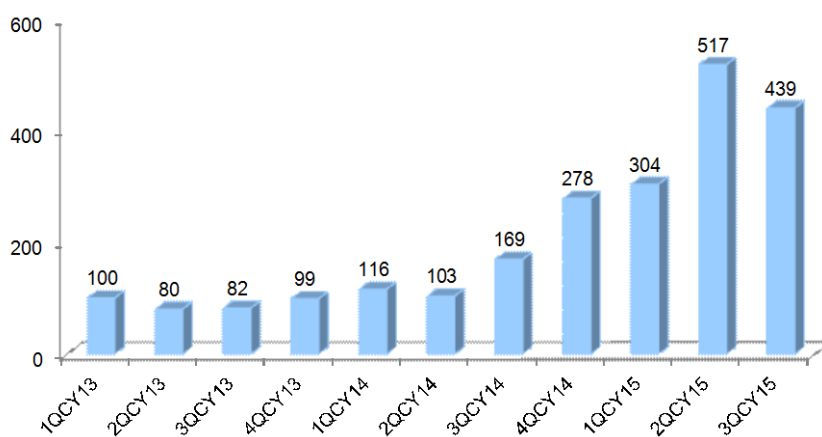
Source: RHB

Figure 3: Average daily derivatives trading volume ('000)



Source: SGX data

Figure 4: Average daily China A50 futures trading volume ('000)



Source: SGX data

Financial Exhibits

Profit & Loss (SGDm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total turnover	715	687	779	847	885
Gross profit	715	687	779	847	885
Other operating costs	(305)	(320)	(384)	(434)	(448)
Operating profit	410	367	395	413	437
Operating EBITDA	451	412	452	466	491
Depreciation of fixed assets	(40)	(46)	(57)	(53)	(54)
Operating EBIT	410	367	395	413	437
Other recurring income	(7)	7	9	11	11
Interest income	5	5	7	8	8
Pre-tax profit	408	379	412	432	456
Taxation	(72)	(59)	(63)	(70)	(78)
Profit after tax & minorities	336	320	349	361	379
Reported net profit	336	320	349	361	379
Recurring net profit	336	320	349	361	379

Source: Company data, RHB

Cash flow (SGDm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Operating profit	410	367	395	413	437
Depreciation & amortisation	40	46	57	53	54
Change in working capital	11	16	8	31	(57)
Other operating cash flow	9	5	32	13	14
Operating cash flow	470	433	493	510	448
Tax paid	(52)	(75)	(64)	(70)	(78)
Cash flow from operations	419	359	429	440	371
Capex	(28)	(72)	(82)	(64)	(74)
Other investing cash flow	(12)	7	(13)	8	8
Cash flow from investing activities	(40)	(65)	(95)	(56)	(66)
Dividends paid	(289)	(300)	(300)	(332)	(325)
Proceeds from issue of shares	-	-	(8)	-	-
Other financing cash flow	(25)	-	0	-	1
Cash flow from financing activities	(314)	(300)	(308)	(332)	(324)
Cash at beginning of period	548	613	607	633	684
Total cash generated	65	(6)	26	51	(19)
Implied cash at end of period	613	607	633	684	665

Source: Company data, RHB

Financial Exhibits

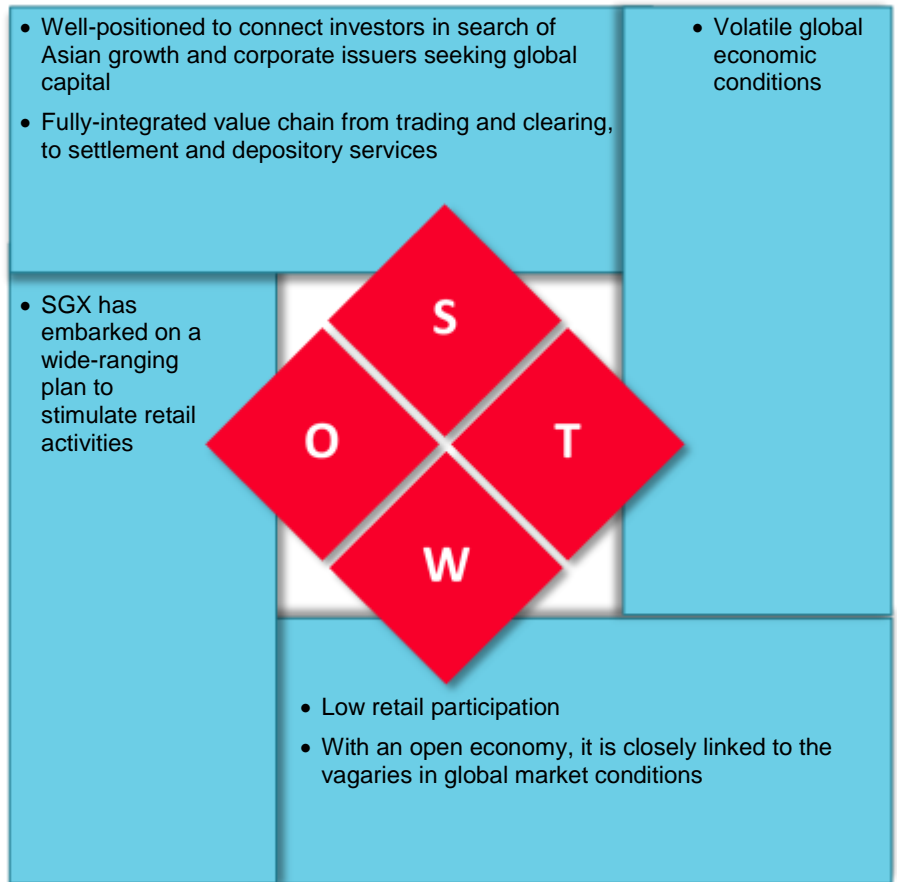
Balance Sheet (SGDm)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Total cash and equivalents	613	607	633	684	665
Accounts receivable	757	572	654	643	688
Other current assets	210	210	218	212	217
Total current assets	1,580	1,389	1,504	1,539	1,569
Total investments	27	27	9	29	31
Tangible fixed assets	136	173	201	212	232
Total other assets	51	51	87	59	62
Total non-current assets	215	252	298	300	325
Total assets	1,794	1,641	1,802	1,839	1,895
Accounts payable	783	616	718	738	726
Other current liabilities	100	83	86	67	97
Total current liabilities	884	699	805	806	824
Other liabilities	22	20	21	21	21
Total non-current liabilities	22	20	21	21	21
Total liabilities	906	719	825	826	844
Share capital	426	428	429	429	429
Other reserves	462	494	548	584	622
Shareholders' equity	889	922	976	1,013	1,050
Total equity	889	922	976	1,013	1,050
Total liabilities & equity	1,794	1,641	1,802	1,839	1,895

Source: Company data, RHB

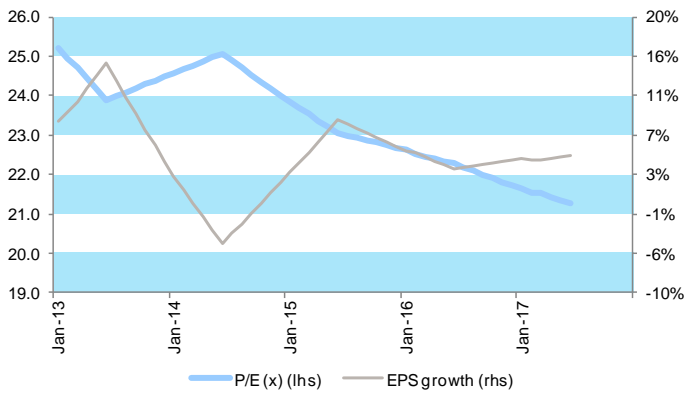
Key Ratios (SGD)	Jun-13	Jun-14	Jun-15	Jun-16F	Jun-17F
Revenue growth (%)	10.4	(4.0)	13.4	8.8	4.5
Operating profit growth (%)	14.3	(10.6)	7.7	4.7	5.7
Net profit growth (%)	15.1	(4.6)	8.8	3.6	4.8
EPS growth (%)	15.0	(4.7)	8.8	3.4	4.8
BVPS growth (%)	6.6	3.7	5.7	3.7	3.7
Operating margin (%)	57.4	53.4	50.7	48.8	49.4
Net profit margin (%)	47.0	46.7	44.8	42.6	42.8
Net debt to equity (%)	(69.0)	(65.8)	(64.8)	(67.5)	(63.3)
DPS	0.28	0.28	0.28	0.30	0.32
Recurrent cash flow per share	0.39	0.34	0.40	0.41	0.35

Source: Company data, RHB

SWOT Analysis

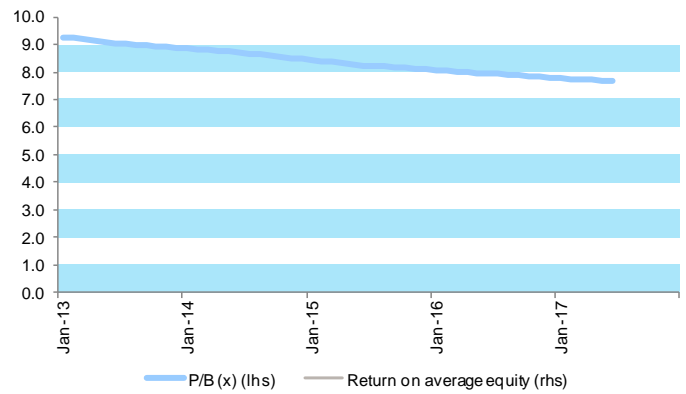


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

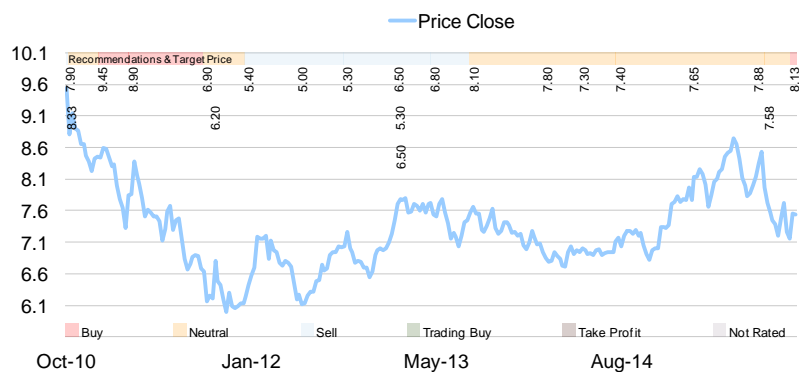


Source: Company data, RHB

Company Profile

Singapore Exchange Ltd (SGX) operates the securities and derivatives exchange in Singapore and their related clearing houses.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-30	Buy	8.13	7.03
2015-07-29	Neutral	7.58	8.23
2015-07-02	Neutral	7.88	8.08
2015-04-22	Neutral	7.65	8.52
2015-01-22	Neutral	7.65	7.94
2014-10-22	Neutral	7.40	6.86
2014-08-01	Neutral	7.40	7.17
2014-07-24	Neutral	7.40	7.09
2014-04-24	Neutral	7.30	6.96
2014-02-10	Neutral	7.80	6.72

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

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